

NORTHEASTERN VERMONT REGIONAL HOSPITAL FY 2016 BUDGET NARRATIVE

EXECUTIVE SUMMARY:

Northeastern Vermont Regional Hospital (NVRH) has budgeted an operating margin of 2.1% for fiscal year 2016. On a budget year to budget year basis fiscal 2016 includes a volume increase of 6.5%. This increase results from; the addition of a full time orthopedic surgeon, increasing the status of our urologist from part time to full time, adding a new full time primary care physician and expanding our Pain Management program.

During fiscal 2015 NVRH experienced a change in payer mix whereby Medicare and Medicaid-insured patients account for a higher percentage of all patients. The fiscal year 2016 budget assumes continuation of this trend.

The fiscal 2016 budget provides continued financial support for several health care reform projects and one new initiative, which are described in the following section.

On a budget to budget basis total net patient revenue is projected to increase by 4.8%. However, looking at a three-year trend from FY 2014 to FY 2016 the average annual net revenue growth is less than 2.9%, which is below the 3% annual growth target established by the Green Mountain Care Board for this time frame. The net revenue growth trend is discussed in another section of this document.

Expenses are projected to increase by 6.1%. The factors contributing to this increase are also explained in another section of this document.

On average, charges for hospital services will increase by 5.2%.

During fiscal 2016 NVRH will invest \$3,500,000 in new capital, including \$1,200,000 for building and renovation projects. Sometime after October 1, 2015 NVRH will file a Certificate of Need application for an in-house MRI unit to replace our existing fixed-mobile machine.

HEALTH CARE REFORM INVESTMENTS INCLUDED IN FY 2016 BUDGET

The fiscal year 2016 operating budget provides funding for several ongoing health care reform activities and one new one, a full time ambulatory practice pharmacist.

Community Connections Team

The Community Connections Team is staffed by four Community Health Workers (CHW). Patients may access the Community Connections Team from a variety of entry points from within the Blueprint for Health Community Health Team (CHT), medical offices. or through any community partner. Some clients learn about Community Connections via word of mouth and seek services without a referral. Forty-seven percent of clients were referred to Community Connections by someone in their patient-centered medical home.

A recently completed evaluation by the Centers for Disease Control and Prevention of the Community Connections team showed that across subjects there was statistically significant improvement between clients' first encounters and most recent encounters in the areas of accessing

health insurance, . In summary, the evaluation team observed the following themes from interviews with Community Connections Team clients:

- The Community Connections Team is easy to access
- CHWs are empathetic and provide a welcoming environment
- Clients experience immediate results and had regular follow-up from Community Connections Team members.
- Clients felt that they got a two-for-one experience in getting help from the Community Connections Team
- Clients felt less stressed after working with the Community Connections Team
- Meeting their basic needs went a long way in improving quality of life
- Community Connections does not “cure” people but clients have more awareness of their health issues

Family Safety and Services at Home (SASH)

Family SASH is a program supported by NVRH for low income families who reside in housing provided by Rural Edge Housing Partners. Many of these families are third generation living at or below the poverty level and residing in subsidized housing. The goals for the Family SASH program include:

- To increase the rate of graduation
- To increase number who enter post-secondary education or training
- To have all participants work part time with plans toward a career path.
- To decrease the incident of teen pregnancy

Prescription Medication Support for Low Income Patients

NVRH partners with a local pharmacy, Gauthier’s Pharmacy in St. Johnsbury, to provide free prescription medications to patients who cannot afford them. This program is administered through Community Connections. When a patient needs a medication and cannot afford it, the staff at Community Connections makes the connection with Gauthier’s Pharmacy. The patient simply fills the prescription at Gauthier’s and Gauthier’s bills the hospital with no charge to the patient.

Palliative Care Services

Palliative Care provides care coordination with healthcare providers, support for family members and caregivers, pain and symptom management, patient-centered decision making, referrals to complimentary therapies (massage, Reiki), and connections to community resources.

NVRH takes a team approach to providing palliative care services to patients with a life limiting illness. Team members include two board certified palliative medicine physicians, the patient and family, primary care and specialty providers, hospital care managers, home health, Community Connections, pharmacists, and spiritual advisors or clergy.

Referrals to Palliative Care are made by primary care or specialists, and hospitalists. The discussion about Palliative Care can also start with a Community Health Team member.

New Healthcare Reform Initiatives for FY16

Ambulatory Pharmacist

NVRH will hire an ambulatory care pharmacist during fiscal 2016. This person will become part of the inter-professional patient care teams in NVRH’s existing patient-centered medical homes. Working with providers the ambulatory pharmacist will focus on medication management for

ambulatory patients, coordination of care, patient advocacy, wellness and health promotion, triage and referral, patient education and self-management. The goals for this position include optimizing safe medication use and optimizing medication therapy for patients with chronic conditions including diabetes, asthma, cardiovascular disease, and renal disease. Following is a quote from an American Society of Health-System Pharmacists briefing paper on the use of ambulatory pharmacists:

“By assertively advancing ambulatory care practice, pharmacy will help achieve the national priorities of improving patient care, patient health, and affordability of care.”

We look forward to this new person working with our providers as part of our ongoing effort to achieve the triple aim goals.

Community Health Initiatives FY16

NVRH is funding a variety of community health initiatives to address our 3 identified health priorities: obesity and obesity-related chronic conditions; poverty related issues; mental health and substance abuse. These include, but are not limited to:

- Providing Bridges Out of Poverty training for community based agency staff
- Working with the St Johnsbury School District on preventing adverse childhood events through their Promise grant initiatives
- Working with community leaders to address poverty issues such as housing and living wage jobs
- Supporting training programs on mental health issues for area professionals
- Providing meeting and office space for the Kingdom Recovery Center
- Providing non-motorized user amenities for the newly created rail trail running from St Johnsbury to W. Danville
- Expanding our No Sugar Added campaign to reduce consumption of sugary drinks to a teen audience

REVIEW OF FISCAL YEAR 2016 BUDGET AND YEAR TO YEAR CHANGES

Net Patient Revenues

On a budget to budget basis net patient revenues will increase by 4.8% from 2015 to 2016. The following table summarizes the factors contributing to the NPR year to year increase

Description	Amount
FY 2015 Approved Net Revenue	\$65,324,100
Increase Utilization	4,402,700
Change in Pay Mix	(1,575,200)
Increase Uncompensated Care	(443,000)
Decrease DSH Revenue	(235,300)
From Rate Increase	1,014,000
FY 2016 Budget Net Revenue	\$68,487,300

As shown in the table above changes in utilization accounts for a large percentage of the net revenue growth. Much of that new volume will come from a new full-time orthopedic surgeon. During our 2015 budget presentation to the Green Mountain Care Board NVRH discussed the problem of patients in our community being unable to obtain timely access to orthopedic surgery

and described how many of those patients crossed the Connecticut River to obtain services. With the addition of a new full-time orthopedic surgeon on July 15, 2015 that will no longer be the case. Patients will now stay in their community to receive all their orthopedic services, which will increase volume and costs at NVRH but will not increase costs to the health care system as a whole.

Additional volume will also result from increasing urologist services from part time to full time, the addition of a full time primary care physician and expansion of the Pain Management Clinic.

The FY 2015 budget included operating a Pain Management Clinic 2 days per month. Due to an overwhelming community need for this program, the Clinic expanded to 10 days per month. The corresponding revenue and expense increases are included in the FY 2016 budget. The operating budget does not include any other additional or expanded programs.

Rates charged for services will increase by an average of 5.2%. This increase will be accomplished by raising charges for hospital services by an average of 6% and minimally increasing rates for hospital owned physician practices.

Compliance with GMCB Net Revenue Growth Target

On a budget to budget basis net patient revenues will increase by 4.8% from 2015 to fiscal 2016. However, NVRH's average annual net revenue growth from FY14 to FY16 is only 2.9%. Inclusion of a new health reform initiative puts NVRH well below the 3% target, as shown below.

Fiscal Year	Approved Net Patient Revenue
FY 2014	\$64,687,200
FY 2015 (FY 2014 Approved plus 3%)	66,627,800
FY 2016 W/Out Reform Initiative (FY15 plus 3%)	68,626,600
2016 Reform Initiative- Ambulatory Pharmacist	124,000
Adjusted FY 2016	68,750,600
FY 2016 Budget Net Patient Revenue	68,487,300
Favorable (Unfavorable) Variance FY16 Budgeted Net Revenue to GMCB Trended Cap	\$263,300

A summary of key assumptions for each of insurance category follows:

Medicare Reimbursement Assumptions

No changes to Medicare reimbursement formulas are anticipated. However, Medicare net revenue will increase due to a shift in payer mix and an increase in utilization of services. The FY 2015 budget assumed Medicare patients would account for 40.2% of all patients. However, based on year-to-date experience during 2015 we anticipate Medicare's share of patient will increase to 41.8%.

NVRH and several other Vermont hospitals have filed an appeal seeking to reverse a recent change to CMS policy regarding Medicare reimbursement for the provider tax expense. The FY 2016 budget assumes no additional Medicare reimbursement from that appeal.

Medicaid Reimbursement Assumptions

Medicaid revenues are expected to remain flat except for additional payment related to the increase in utilization and change in payer mix. The FY 2015 budget assumed Medicaid patients would account for 20.5% of all patients. However, based on year-to-date experience during 2015 we anticipate Medicaid's share of all patients will increase to 21.5%.

Commercial Insurance/Self Pay Reimbursement Assumptions

Reimbursement from commercial or private payers is budgeted based on discount rates established through contracts with these payers. No significant changes to existing negotiated contracts are anticipated.

The FY 2015 budget assumed commercially-insured patients would account for 34.3% of all patients. However, based on year-to-date experience during 2015 we anticipate the percentage of patients with commercial insurance will decrease to 32.1%. The decline of commercial insurance and corresponding increase in Medicare/Medicaid-insured patients will have a significant unfavorable effect on net patient revenue during fiscal year 2016.

Uncompensated Care

An increase in Uncompensated Care has been assumed for fiscal 2016 in anticipation of increasing amounts of health care expenses that become self-pay balances as patients with insurance must meet higher and higher deductible and out of pocket maximum limits before insurance coverage starts.

Disproportionate Share Revenues

Based on information received from the Department of Vermont Health Access Disproportionate Share Revenue (DSH) is budgeted at \$1,460,700. This represents a decrease of \$235,000 from fiscal year 2015.

Other Operating Revenues

Other Operating Revenues total \$1,648,700. A majority of other operating revenues, \$1,417,800, is budgeted for the 340B Retail Pharmacy Program.

Operating Expenses

Total operating expenses are budgeted to increase by \$3,947,400 or 6.1%. The factors contributing to this increase are summarized in the table below.

Description	Amount
FY 2015 Approved Expenses	\$64,749,000
Inflation/Cost of Living Increases	1,975,000
New positions including ambulatory pharmacist	200,000
Additional physician providers	650,000
Additional Information System Module	125,000
Provider Tax Increase	150,000
Expansion of Pain Management Clinic	200,000
Volume Increases	347,400
Conversion from contracted to employed ED physicians	300,000
FY 2016 Budgeted Expenses	\$68,696,400

An inflation and cost of living increase of 3% has been assumed. The expense reductions identified by our management team during the fiscal 2015 budget process have been included in the 2016 budget. We also continue searching for new opportunities to reduce expenses.

A change in physician staffing of our Emergency Department is in process. Currently, NVRH contracts with an outside service to staff the Emergency Department. On October 1, 2015 we will employ the ED physicians. As part of this transition we are also working toward a staff of ED physicians who are all Board Certified in Emergency Medicine.

The fiscal year 2016 budget does not include any financial support for the OneCare Accountable Care Organization. In January, 2016 NVRH will re-assess our plan to support or not support OneCare. At that time we will be further along with plans for our Community Accountable Care Organization and how NVRH may be a participant in both ACOs

REQUESTED RATE INCREASE

NVRH is requesting a rate increase of 5.2%. This increase will be accomplished by raising charges for hospital services by an average of 6% and minimally increasing rates for hospital owned physician practices.

This rate increase is required to achieve a 2.1% operating margin while absorbing an increasing Medicaid cost-shift due lack of payment increase from the Medicaid program and a shift in payer mix from patients with commercial insurance to patients with either Medicaid or Medicare as their primary insurance.

A REVIEW OF CAPITAL INVESTMENTS FY 2016 to FY 2018:

FY 2016 Capital Budget

The FY 2016 capital budget, which totals \$3,500,000, includes funds to finish the expansion and renovation of our Kingdom Internal Medicine practice and to expand and renovate the orthopedic practice building to accommodate an additional full time orthopedic surgeon. NVRH will invest \$1,100,000 to maintain existing information systems technology and to add new applications.

FY 2016 – FY 2019 Capital Budget

During fiscal 2016 NVRH will file a Certificate of Need application for a fixed MRI machine. Currently, NVRH uses a fixed-mobile MRI machine. We anticipate installing the new MRI equipment in either fiscal year 2017 or 2018, depending on when CON approval is obtained.

A second major project anticipated for the fiscal years period 2016 to 2019 is expansion of operating room number 2. Two of the three operating rooms at NVRH were constructed over 40 years ago. One of the rooms was renovated in 2009. We anticipate a second operating room will be renovated during 2016 or 2017. The renovation will include expanding the existing footprint from 395 square feet to 600 square feet. A total of \$1,400,000 has been budgeted for the operating room expansion project.

DEFINITION OF ALL OUPATIENT VISITS

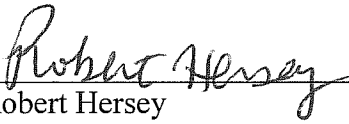
NVRH includes the following under All Outpatient Visits. Patient visits in the emergency room, outpatient surgery, diagnostic imaging, laboratory, infusion therapy unit, two physical therapy sites and respiratory care.

UPDATE TO COMMUNITY HEALTH NEEDS ASSESSMENT IMPLEMENTATION PLAN

NVRH completed a Community Health Needs Assessment during fiscal year 2015. The corresponding Community Needs Assessment Implementation Plan is included with this budget submission.

TECHNICAL CONCERNS:

At this time, NVRH does not have any technical concerns with the Green Mountain Care Board's processes for the fiscal year 2016 budget submission.



Robert Hersey
Chief Financial Officer

CC: Paul Bengtson, CEO